

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Riley Property Holdings LLC, Riley Mezzanine Corp., CB Riley Investor LLC, Cerberus Partners, L.P., Cerberus Associates, L.L.C., LNR Property Corporation, and Valencia Water Company (U342-W) for authorization of Riley Property Holdings LLC, Riley Mezzanine Corp., CB Riley Investor LLC, Cerberus Partners, L.P., and Cerberus Associates, L.L.C. to acquire indirect control over Valencia Water Company.

Application 04-12-016  
(Filed December 16, 2004)

**ASSIGNED COMMISSIONER'S AND  
ADMINISTRATIVE LAW JUDGE'S RULING  
REQUIRING PARTIES TO FILE AND  
SERVE RESPONSES**

**Summary**

In this ruling, we require the parties to submit additional information to enable us to determine whether evidentiary hearings will be required.

**Background**

In Decision (D.) 04-01-051, the Commission approved the transfer of indirect control of Valencia Water Company (Valencia) from Newhall Land and Farming Company to Lennar Corporation and LNR Property Corporation. Lennar Corporation and LNR Property Corporation each hold a 50% interest in the intermediary entity that indirectly owns Newhall Land and Farming Corporation. The Commission imposed a series of conditions on its approval of the transaction which required, among other things, that Valencia ratepayers be

insulated from any financial effects of the transaction and that Valencia maintain its high standard of customer service and community involvement.

LNR Property Corporation, and its indirect 50% ownership of Valencia, is the subject of the instant application. On December 16, 2004, Riley Property Holdings, LLC, Riley Mezzanine Corp., CB Riley Investor LLC, Cerberus Partners, L.P., Cerberus Associates LLC, LNR Property Corporation, and Valencia filed this application seeking Commission authorization for Riley Mezzanine Corporation to acquire LNR Property Corporation. The other entities are upstream owners of Riley Mezzanine Corporation. The instant applicants all agree to comply fully with the conditions imposed by the Commission in approving the Lennar transaction in D.04-01-051.

Protests to the application were filed by Public Citizen, Water for All (Public Citizen), The Friends of the Santa Clara River (Friends), and the Angeles Chapter of the Sierra Club (Sierra Club). Public Citizen stated that its is a national consumer rights organization and requested that the Commission hold evidentiary hearings on how the proposed merger would benefit Valencia's ratepayers. Public Citizen also stated that Valencia has a "poor track record of weak public accountability and environmental mismanagement."

Friends urged "a careful review of all aspects of this matter" by the Commission, particularly whether Valencia was in compliance with D.04-01-051 conditions. Friends stated their belief that Valencia is not complying with condition 8, which requires that Valencia maintain or improve practices and policies for addressing the ammonium perchlorate pollution problem. Friends also expressed concern that preferential treatment for new service extensions may be granted to real estate development projects owned by the parent companies.

The Sierra Club stated that it is concerned with protection of Valencia ratepayers as well as the public health due to the perchlorate pollution. Sierra Club also expressed concern with out-of-state owners as well as preferential treatment being given to affiliated land companies real estate projects.

The applicants filed a reply to the protests and contended that the protests failed to raise any substantive issues regarding Riley Mezzanine's acquisition of LNR Property Corporation and indirect control of Valencia.

### **Applicable Standard**

In D.04-01-051, the Commission stated that where an indirect change of control occurs with a holding company that has little, if any, day-to-day involvement with the public utility, the primary focus of the Commission's evaluation will be the effects of the proposed transaction on ratepayers. Riley Mezzanine's proposed acquisition of the company that indirectly owns 50% of Valencia is an indirect change of control at the holding company level, with little or no day-to-day involvement with Valencia. Therefore, we will focus our review of the proposed transaction on the effects on ratepayers.

In D.04-01-051, the Commission also imposed a series of conditions on the Lennar acquisition. The instant applicants state that they will comply with these conditions.

### **Additional Filings Required**

To enable us to evaluate the need for a hearing in this proceeding, we require responses from the identified parties on the following topics:

Protestants:

1. Please articulate any specific effect on ratepayers from the proposed transaction, and describe proposed evidence that will demonstrate this effect. Specifically identify any disputed issues of material fact that require evidentiary hearings.
2. Please state any new conditions required by the unique facts of this proposed transaction.

Applicants:

1. Page 2 of the application states that NWHL Investment LLC “was merged” with LandSource Communities Development LLC effective November 30, 2004. Please state whether Pub. Util. Code § 854 applied to this transaction and, if so, whether applicants complied with it.
2. Please explain how the interim agreement under which LNR Property Corporation relinquishes to Lennar Corporation its 50% indirect control over Valencia will not compromise compliance with the conditions set out in D.04-01-051.

Responses to these questions should be filed and served no later than March 4, 2005.

**IT IS SO RULED.**

Dated February 17, 2005, at San Francisco, California.

/s/ SUSAN P. KENNEDY by KJB

Susan P. Kennedy  
Assigned Commissioner

/s/ MARIBETH A. BUSHEY

Maribeth A. Bushey

Administrative Law Judge

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner's and Administrative Law Judge's Ruling Requiring Parties to File and Serve Responses on all parties of record in this proceeding or their attorneys of record.

Dated February 17, 2005, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

**N O T I C E**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.